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BELLSOUTH TELECOMMUNICATIONS, INC.  
REBUTTAL TESTIMONY OF G. DAVID CUNNINGHAM  
BEFORE THE PUBLIC SERVICE COMMISSION OF SOUTH CAROLINA

DOCKET NO. 2001-65-C

JUNE 11, 2001



Q. PLEASE STATE YOUR NAME, ADDRESS AND POSITION WITH  
BELLSOUTH TELECOMMUNICATIONS, INC. (HEREINAFTER  
REFERRED TO AS "BELLSOUTH" OR "THE COMPANY").

A. My name is G. David Cunningham and my business address is 3535  
Colonnade Parkway, Birmingham, Alabama 35243. My position is  
Director in the Finance Department of BellSouth.

Q. ARE YOU THE SAME G. DAVID CUNNINGHAM WHO FILED DIRECT  
TESTIMONY IN THIS DOCKET?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to the testimonies  
of Mr. Don J. Wood, on behalf of New South Communications, NuVox  
Communications, Broadslate Networks, ITC^DeltaCom  
Communications, and KMC Telecom, and Mr. David S. Lacoste of the

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1 Public Service Commission of South Carolina, regarding the  
2 appropriate economic lives for use in BellSouth's cost studies.

3

4 Q. PLEASE REVIEW THE LIVES THAT BELL SOUTH USED IN ITS  
5 COST STUDIES.

6

7 A. The economic lives used in BellSouth's cost studies are listed in Exhibit  
8 GDC-1 of my direct testimony, and are supported by BellSouth's South  
9 Carolina Depreciation Study, which is attached to my direct testimony  
10 as Exhibit GDC-2. The Depreciation Study provides detailed  
11 explanation and analysis for each asset account, in support of the  
12 economic lives used in the cost studies. These forward-looking lives  
13 appropriately reflect the impact of rapid technological changes taking  
14 place in the telecommunications industry.

15

16 Q. IN HIS TESTIMONY, MR. WOOD (PAGE 77) STATES THAT LIVES  
17 PRESCRIBED BY THE FCC WERE CONSIDERED IN DETERMINING  
18 THE LIVES THAT HE RECOMMENDS FOR USE IN THE COST  
19 STUDIES. DO YOU AGREE THAT FCC-PRESCRIBED LIVES ARE  
20 APPROPRIATE FOR USE IN THE COST STUDIES?

21

22 A. No, I do not. As I stated in my direct testimony, the FCC last  
23 prescribed lives for BellSouth in South Carolina in 1995. (For some  
24 reason, Mr. Wood's Exhibit DJW-8 apparently lists lives prescribed by  
25 the FCC in 1995 for BellSouth operations in the state of Florida, rather

1 than those prescribed in 1995 for South Carolina. However, this does  
 2 not alter BellSouth's response.) These lives are much too long,  
 3 particularly for the technology-sensitive accounts. They do not  
 4 appropriately reflect the impact of rapid technological changes taking  
 5 place in the telecommunications industry. These changes, which  
 6 BellSouth must embrace in order to stay competitive, shorten asset  
 7 lives significantly beyond what the FCC prescribed in 1995.

8

9 As stated in my direct testimony, BellSouth has emphasized to the FCC  
 10 many times that substantially more progress is needed in moving to  
 11 lives that adequately reflect the current pace of technology and  
 12 competitive changes. BellSouth has made clear to the FCC its position  
 13 that BellSouth should be allowed to establish its own interstate  
 14 depreciation rates, as it does in South Carolina and other states for  
 15 intrastate purposes with implementation of price regulation.

16

17 Q. MR. WOOD ALSO STATES IN HIS TESTIMONY (PAGE 77) THAT  
 18 THE FCC'S RANGE OF LIVES WAS CONSIDERED IN  
 19 DETERMINING THE LIVES THAT HE RECOMMENDS. DO YOU  
 20 AGREE THAT LIVES BASED ON THE FCC RANGES ARE  
 21 APPROPRIATE FOR USE IN THE COST STUDIES?

22

23 A. No, I do not. Lives based on FCC ranges, particularly for the  
 24 technology-sensitive accounts, are too long.

25

1 As part of CC Docket No. 92-296, the FCC issued a Notice of  
2 Proposed Rulemaking in which it stated its intent of simplifying the  
3 depreciation prescription process. The FCC's approach to  
4 simplification was to set up ranges of projection lives and future net  
5 salvage estimates for most of the asset accounts. Under this  
6 procedure, if a company is meeting certain predetermined prerequisites  
7 and proposes to use projection lives or future net salvage estimates  
8 from within these ranges, the company need not submit the  
9 voluminous, detailed supporting data otherwise required. The goal  
10 expressed by the FCC was simplification, not to assure forward-looking  
11 lives.

12  
13 The FCC's ranges were generally developed by nothing more than  
14 taking one standard deviation around the mean of the lives and salvage  
15 values that the FCC had prescribed most recently for the various  
16 accounts for the local exchange carriers. For most of these accounts,  
17 the ranges were based on 1990 – 1992 prescriptions, and with the  
18 exception of one account (that is, moving the low end of the FCC life  
19 range for the Digital Switching account from 16 to 12 years), have not  
20 been updated since. Clearly, lives prescribed a decade ago could  
21 hardly be considered forward-looking today.

22

23 Q. WHAT OTHER COMMENTS DO YOU HAVE CONCERNING THE  
24 INAPPROPRIATENESS OF USING FCC-PRESCRIBED LIVES IN  
25 THE COST STUDIES?

1

2 A. FCC-prescribed lives are inappropriate for use in forward-looking cost  
3 studies because the FCC continues to rely on history to determine the  
4 lives that it prescribes. BellSouth does not believe that simply looking  
5 at the past can possibly indicate what will happen in the future with  
6 equipment that is sensitive to rapid changes in technology. This rear-  
7 view mirror approach is clearly not appropriate for projecting the future  
8 of this equipment.

9

10 As I stated in my direct testimony, emphasis on historical retirement  
11 patterns is an indication that one does not expect the future to vary  
12 significantly from the past. Even a casual observation of the  
13 telecommunications industry today leaves no doubt that there is an  
14 evolution taking place that cannot help but have a major effect on  
15 telecommunications assets.

16

17 Q. WHAT COMMENTS DO YOU HAVE REGARDING MR. LACOSTE'S  
18 TESTIMONY?

19

20 A. Mr. Lacoste discusses on page 2 of his testimony his observations  
21 concerning the actual depreciation rates used by BellSouth. As  
22 clarification, I remind the parties here that my testimony, along with the  
23 2000 BellSouth South Carolina Depreciation Study attached to my  
24 direct testimony as Exhibit GDC-2, supports appropriate economic lives  
25 for use in the cost studies, not depreciation rates. Economic lives and

1 future net salvage percentages are inputs to the cost model to  
2 determine depreciation rates for the forward-looking cost studies. The  
3 depreciation rates used for booking are not appropriate for use in the  
4 model. As I stated on page 3 of my direct testimony, "The depreciation  
5 study also describes average remaining lives and depreciation rates to  
6 be used for depreciation booking purposes. These parameters,  
7 however, relate to embedded investment and are not used in the cost  
8 studies."

9

10 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

11

12 A. Yes, it does.

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STATE OF SOUTH CAROLINA                    )  
   ) CERTIFICATE OF SERVICE  
 COUNTY OF RICHLAND                        )

The undersigned, Susan Davis Gibson, hereby certifies that she is employed by the Legal Department for BellSouth Telecommunications, Inc. ("BellSouth") and that she has caused the Rebuttal Testimony of G. David Cunningham to be served by placing such in the care and custody of the United States Postal Service, with first-class postage affixed thereto and addressed to the following this June 11, 2001:

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